



ARIZONA STATE SENATE
Fifty-Fifth Legislature, Second Regular Session

AMENDED
FACT SHEET FOR S.B. 1116

~~tax credit; foster care organizations~~
(NOW: municipal tax exemption; residential lease)

As passed the Senate, S.B. 1116, required the amount of the Credit for Contribution to Qualifying Charitable Organizations and the Credit for Contribution to Qualifying Foster Care Charitable Organizations to be annually adjusted for inflation and expanded the definition of *qualified individual*.

The House of Representatives adopted a strike-everything amendment that does the following:

Purpose

Effective October 1, 2024, prohibits a city, town or other taxing jurisdiction from levying transaction privilege tax (TPT) or municipal tax on the business of renting or leasing real property for residential purposes (residential rental business).

Background

TPT on residential rentals is imposed at the city-level and TPT rates vary by municipality. The Model City Tax Code (MCTC) is a uniform sales and use tax act that has been adopted by most Arizona cities and towns as the basis for imposing tax. The MCTC facilitates tax base uniformity among cities and towns and authorizes cities and towns to either exempt or tax certain items that are not part of the standard or model language of the MCTC ([JLBC](#)).

Regardless of MCTC adoption, a city or town that levies a TPT, sales, gross receipts, use, franchise or other similar tax or fee may impose or increase the rate of tax applied on residential rentals, if approved by the qualified electors at regular municipal election. Health care facilities, long-term care facilities and hotel, motel or other transient lodging businesses are excluded from the statutory requirements for taxing residential rentals (A.R.S. §§ [42-5014](#) and [42-6011](#)).

On 30 days' written notice to the tenant, a landlord may adjust the rental amount to equal the difference caused by a municipal change to the municipality's TPT on residential rentals, if the adjustment occurs after the effective date of the new TPT rate and the landlord's right to adjust the rent is disclosed in the rental agreement ([A.R.S. § 33-1314](#)).

The Joint Legislative Budget Committee fiscal note estimates that S.B. 1116, as amended by the House Ways and Means Committee, would have no impact on the state General Fund but would result in a reduction in municipal tax revenues of \$78.3 million in FY 2023 and \$202 million in FY 2024 ([JLBC fiscal note](#)).

Provisions

1. Prohibits a city, town or other taxing jurisdiction from levying a TPT, sales, gross receipts, use, franchise or other similar tax or fee on residential rental business, regardless of whether a city or town has adopted the MCTC.
2. Repeals the authority of a city or town to impose or increase a tax on residential rental business after approval by the qualified electors.
3. Requires, from January 1, 2023, until December 31, 2025, the owner of residential rental property in a city, town or other taxing jurisdiction that levies a TPT on residential rentals to reduce the amount of rent due to equate for the elimination of a TPT on residential rentals.
4. Requires, by October 31, 2022, the Arizona Department of Revenue (ADOR) to electronically notify each residential rental TPT licensee that a city, town or other taxing jurisdiction will no longer levy a TPT on residential rentals beginning on January 1, 2023.
5. Requires ADOR, if unable to send an electronic notification, to send the notice by first class mail to the address:
 - a) on the TPT license;
 - b) of any property management company, statutory agent or other representative listed as a delegate with ADOR for each residential rental; and
 - c) of each residential rental located in the city, town or other taxing jurisdiction that will no longer levy a TPT on residential rentals.
6. Requires ADOR to post the notice on its website.
7. Applies, retroactive to October 1, 2022, ADOR's notification requirements.
8. Repeals, on January 1, 2026, ADOR's notification requirements.
9. Eliminates the ability of a landlord to adjust the amount of rent on residential rentals in response to TPT changes and the related notification and disclosure requirements.
10. Removes the stipulation that citywide and countywide residential rental property licensing, registration or inspection program requirements do not prohibit a city, town or county from requiring TPT licenses for residential rentals.
11. Removes, from the required contents of an assessment notice form, a notice of the requirements and penalties for a municipal TPT on residential rentals, as applicable.
12. Contains a statement of legislative intent and technical conditional enactment.
13. Makes technical and conforming changes.
14. Becomes effective on October 1, 2024, with retroactive provisions as noted.

Amendments Adopted by the House of Representatives

- Adopted the strike-everything amendment relating to exempting residential rental business from taxation.

House Action

WM	3/23/22	DPA/SE	5-4-1-0
3 rd Read	6/22/22		33-25-2

Prepared by Senate Research

June 22, 2022

MG/KJA/slp